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February 15, 2011

AGENDA ITEM 3b

TO: MEMBERS OF THE PERFORMANCE AND COMPENSATION COMMITTEE

- I. SUBJECT:** Changes in Senior Portfolio Manager and Portfolio Manager Performance Plans
- II. PROGRAM:** Administration
- III. RECOMMENDATIONS:** This is an Information Item
- IV. ANALYSIS:**

The Chief Executive Officer has been delegated the review of quarterly status reports and approval of changes in performance plans for Senior Portfolio Manager and Portfolio Manager positions. Changes are to be reported through the Performance and Compensation Committee to the Board. The purpose of this item is to report changes that the Chief Investment Officer and the Chief Executive Officer have approved.

Change to Leadership Performance Measure for All Investment Managers

One change applies to the qualitative Leadership measure of all Senior Portfolio Managers and Portfolio Managers. This change incorporates the same enterprise-wide objectives to these plans, as was presented in item 3a for the Senior Investment Officers, under the heading of Organizational Management Practices.

Individual Performance Measure Changes

Additional individual changes have been approved in the performance plans of one (1) Senior Portfolio Manager and four (4) Portfolio Managers. None of the changes delays the completion of performance measures beyond the end of the fiscal year. The changes are summarized in the attachment to this item.

In accordance with the program policies and procedures, changes of the quantitative measures listed in the attached summary have been reviewed for clarity by the investment consultant. The incumbents have been made aware of the changes.

V. STRATEGIC PLAN:

Under Goal III of the Strategic Plan, CalPERS is committed to sustaining a high performance work culture. This can be accomplished at the highest executive levels through the establishment of methods that provide broad flexibility in the recruitment, retention and compensation of key personnel.

VI. RESULTS/COSTS:

The establishment of incentive plan performance measures is critical to the management of a competitive compensation program for executives at the highest levels of the organization. This, in turn, is critical to the success of the organization. The cost of performance awards that might arise from the recommendations in this item will be funded from existing resources.

MICHAEL A. WILLIHNGANZ, Chief
Human Resources Division

RUSSELL G. FONG
Interim Assistant Executive Office
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Attachment

**Summary of Approved Changes in the Performance Plans
of Senior Portfolio Managers and Portfolio Managers**
Second Quarter, 2010-11 Fiscal Year

Position	Change and Reason
All Sr. Investment Officers, Sr. Portfolio Managers & Portfolio Managers	Language added to the Qualitative <i>Leadership</i> performance measure to include Organizational Management Practices: enterprise-wide goals which align the Investment Manager performance plans with those of all other CalPERS Executives.
Sr. Portfolio Manager, Fixed Income (A. Phillips)	<p><i>Other Internally Managed Fixed Income Funds</i> Quantitative performance factor weight-adjusted and composite created for better alignment among staff and securities lending collateral re-investment pool.</p> <p><i>CalPERS Internally Managed Mortgages</i> Quantitative performance measure re-weighted to accommodated changes in <i>Other Internally Managed Fixed Income Funds</i> Quantitative performance factor.</p>
Portfolio Manager, Operations, Performance & Technology (M. Flynn)	<p><i>Public Markets Portfolio Management System (PM2)</i> Qualitative performance factor added, to reflect the high priority of the completion of a reconciled "Investment Book of Record" for public market securities.</p> <p><i>Implement Investment Accounting System</i> Qualitative performance factor deleted to accommodate added factor. This project is postponed until FY 2011-12.</p>
Portfolio Manager, Fixed Income (E. Busay)	Incentive schedule of <i>Pilot Internal Active Currency Overlay Management</i> Quantitative performance factor changed to reflect the portfolio being net of transactions costs.
Portfolio Manager, Fixed Income (J. Hsu)	<p><i>Other Internally Managed Fixed Income Funds</i> Quantitative performance factor weight-adjusted and composite created for better alignment among staff and securities lending collateral re-investment pool.</p> <p><i>CalPERS Internally Managed Mortgages</i> Quantitative performance measure re-weighted to accommodated changes in <i>Other Internally Managed Fixed Income Funds</i> Quantitative performance factor.</p>

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Position	Change and Reason
Portfolio Manager, Fixed Income (D. Kiefer)	<p data-bbox="597 331 1492 478">Addition of <i>Other Internally Managed Fixed Income Funds</i> Quantitative performance factor to include all collateral pool including Structured Investment Vehicles (SIVs), reflecting the creation of new Securities Lending composite.</p> <p data-bbox="597 510 1492 625">Weight of <i>Global Fixed Income Program Development</i> Quantitative performance factor adjusted to accommodate added performance factor.</p> <p data-bbox="597 657 1492 804"><i>CalPERS Securities Lending Program</i> Quantitative performance factor weight-adjusted and composite created for better alignment among staff and securities lending collateral re-investment pool.</p>